Regulation (39-) 26-116.

- (a) General. It is the duty of every person engaged or continuing in business in this state, for the transaction of which a license is required under this Part 1, and the duty of every lessor and lessee of tangible personal property for use in this state, to keep adequate and complete records. Unless the department authorizes an alternate method of recordkeeping in writing, these records should show:
- (1) Gross receipts from sales, or rental payments from leases, of tangible personal property (including any services that are a part of the sale or lease) made in this state, irrespective of whether the seller or lessor regards the receipts to be taxable or nontaxable.
 - (2) All deductions allowed by law and claimed in filing returns.
- (3) Total purchase price of all tangible personal property purchased for sale or consumption or lease in this state.

These records must include the normal books of account maintained by the ordinarily prudent businessman engaged in such business, together with all bills, receipts, invoices, cash register tapes, or other documents of original entry supporting the entries in the books of account together with all schedules or working papers used in connection with the preparation of tax returns.

The preceding provisions shall not apply to organizers of special sales events unless the organizer elects to obtain a sales tax license, file the sales tax return, and remit the sales tax as provided in C.R.S. 39-26-103(a)(b.5)(IV)(B).

- (b) <u>Microfilm records.</u> Records may be microfilmed; however, microfilm reproductions of general books of account, such as cash books, journals, voucher registers, ledgers, etc., are not acceptable as original records. Where microfilm reproductions of supporting records are maintained, such as sales invoices, purchase invoices, credit memoranda, etc., the following conditions must be met:
- (1) Appropriate facilities are provided for preservation of the films for periods required.
- (2) Microfilm rolls are indexed, cross referenced, and labeled to show beginning and ending numbers and to show beginning and ending alphabetical listing of documents included, and are systemically filed.
- (3) The taxpayer agrees to provide transcriptions of any information contained on microfilm which may be required for verification of tax liability.
- (4) Proper facilities are provided for the ready inspection and location of the particular records, including machines for viewing and copying the records.

A posting reference must be on each invoice. Credit memoranda must carry a reference to the document evidencing the original transaction. Documents necessary to support claimed exemptions from tax liability, such as bills of lading and purchase orders, must be maintained in an order by which they readily can be related to the transaction for which exemption is sought.

- (c) <u>Records prepared by automated data processing systems.</u> An ADP tax accounting system must be capable of producing visible and legible records for verification of taxpayer's tax liability.
- (1) Recorded or reconstructible data. ADP records must provide an opportunity to trace any transaction back to the original source or forward to a final total. If detail printouts are not made of transactions at the time they are processed, the systems must have the ability to reconstruct these transactions.
- (2) General and Subsidiary Books of Account. A general ledger, with source references, will be written out to coincide with financial reports for tax reporting periods. In cases where subsidiary ledgers are used to support the general ledger accounts, the subsidiary ledgers should also be written out periodically.
- (3) Supporting Documents and Audit Trail. The audit trail should be designed so that the details underlying the summary accounting data may be identified and made available to the Department upon request. The system should be so designed that supporting documents, such as sales invoices, purchase invoices, credit memoranda, etc., are readily available.
- (4) Program Documentation. A description of the ADP portion of the accounting system should be available. The statements and illustrations as to the scope of operations should be sufficiently detailed to indicate, (A) the application being performed, (B) the procedures employed in each application (which, for example, might be supported by flow charts, block diagrams, or other satisfactory description of the input or output procedures), and (C) the controls used to insure accurate and reliable processing. Important changes, together with their effective dates, should be noted in order to preserve an accurate chronological record.
- (d) Records Retention. All records pertaining to transactions involving sales or use tax liability must be preserved for a period of not less than three years.
- (e) Examination of Records. All of the foregoing records must be made available for examination on request by the executive director or his authorized representatives.